

Characteristics and management style of Mexican enterprises in the United States

(Características y el estilo de administración de las empresas mexicanas en los Estados Unidos)

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Abstract: The United States and Mexico are two countries with vast cultural and economic differences, but their bilateral relations of trade and Foreign Direct Investment (FDI) are very close. Their geographic proximity and their membership to NAFTA have increased the US-Mexican goods trade and have multiplied the Foreign Direct Investment (FDI) inflows into Mexico by seven folds during 1988-2000. On the other hand, the Mexican FDI inflows into the United States even though enjoyed a steady growth during last years, but without a substantial increase. Although, there are some outside political and economical factors that have influenced this evolution of FDI in both countries, there are some managerial factors that have made it difficult to integrate the Mexican enterprises with the US ones. Some researches confirm that in Mexico, cultural aspects influence in all possible ways to make business. These are different from the American management style, so the Mexican enterprises that want to invest in the American market must adopt the American management system, in order to have a successful investment. This research aims to: 1) Demonstrate the growing mutual economic trade interdependence between Mexico and the United States, 2) Identify in which sectors and what areas are most of the Mexican enterprises located in the United States and 3) Compare the Mexican management style with the American system.

Palabras Clave: Empresas, estilo de administración, Estados Unidos, Inversión Directa Extranjera, México

Resumen: Los Estados Unidos y México son dos países con importantes diferencias culturales y económicas, sin embargo su relación bilateral en el comercio y la inversión es muy estrecha. La proximidad geográfica y la firma del Tratado de Libre Comercio de Norte América han incrementado el comercio USA-México y han permitido que la inversión directa extranjera Americana en México se multiplique por siete veces de 1988 al 2000. Por otro lado, la Inversión Directa Extranjera de México en los Estados Unidos, aunque presenta un incremento en estos últimos años, no ha tenido un crecimiento sustancial. Existen factores políticos y económicos que

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han influenciado esta evolución de IDE en ambos países, sin embargo, hay otros factores como la cultura empresarial que ha sido un elemento de dificultad para integrar a las empresas Mexicanas en los Estados Unidos. Algunos investigadores confirman que la cultura empresarial influye en la manera como las empresas Mexicanas hacen negocios, la cual es diferente a la cultura empresarial Americana, entonces, las empresas Mexicanas que quieran invertir y hacer negocio en el mercado Americano, tienen que adoptar el estilo empresarial Americano para tener éxito en sus inversiones. Por lo tanto, esta investigación trata de: 1) Demostrar el crecimiento de la dependencia económica comercial que existe entre México y los Estados Unidos, 2) Identificar en que sectores y donde están establecidas la mayor parte de las empresas mexicanas en los Estados Unidos y 3) Comparar el estilo empresarial mexicanos con el sistema Americano.

Introduction

The bilateral relation between the United States and Mexico has changed after NAFTA. The business environment is affecting the transactions of these two countries, by increasing their FDI and trade. The change has resulted in a substantial increase of the American FDI in Mexico more than the Mexican investments in the United States (Anderson, 2003, Borga, 2003, Stevens, 1998). This increase in business should inherently have an accompanying growth in the number of enterprises who are located in the other side of each country. This managers and employees have to adapt the management style and the techniques they employ in each country.

The topic of this investigation involves the Mexico's participation of Mexican foreign direct investment in the United States with the evolution of the presence of the Mexican Enterprises in the American market. This study is intended to analyze the cultural factors that influence the management style of the Mexican enterprises set in the United States and, to determine if a lack of change in the Mexican managerial culture exists, which in turn, makes it difficult an adaptation to the American managerial culture.

A descriptive analysis will be made in three aspects: first, we will demonstrate the growing mutual economic interdependence between Mexico and the United States, showing the effects of the strong growth of the US-Mexican goods trade and the Foreign Direct Investment (FDI). In second place, we will describe the direct investment characteristics of the Mexican Enterprises implanted in the United States. In third place, we will analyze some differences in the management style between the Mexican enterprises and the American enterprises, some cultural factors such as, power-distance, framework, relationships, organization, authority, loyalty and friendly Atmosphere, will be presented.

The United States, main developed receiver country of FDI

More than half of the investments of the United Kingdom, the United States, France and Germany were destined to the countries called developing ones today. Nevertheless, in the middle of century, the FDI went strongly towards the developed countries; thus, in years 1980-2000, the European and the United States have received more than 80% of the emitted FDI every year in search of having access to these two huge markets. It would be important to denote that even though USA is number one for the main investor countries, it receives more FDI than what it invests in 1998 to 2000. Nevertheless. We observe an important decrease after 2001(chart 1), because the slowdown in the USA economy and a sharp decrease in merger and acquisition activity worldwide (Zeile, 2003).

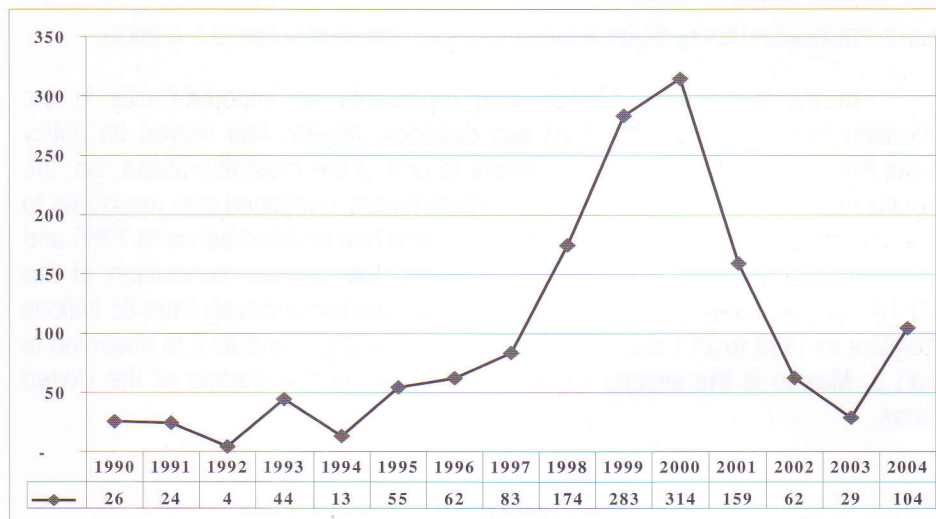


Chart 1. United States FDI inflows. Billions of Dollars (B.E.A, 2005).

As it is observed in Chart 2, at the beginning of 2000, the opening of the borders of the United States with the Latin American countries, through the signing of diverse commercial agreements, has caused an increase of the investments of these countries in the American ground reaching 4.45% from participation, where México has an important presence of 0.39%, in comparison to the participation of Brazil and Argentina (chart 2). Mexico is even equitable to the investments made by Israel in the same year.

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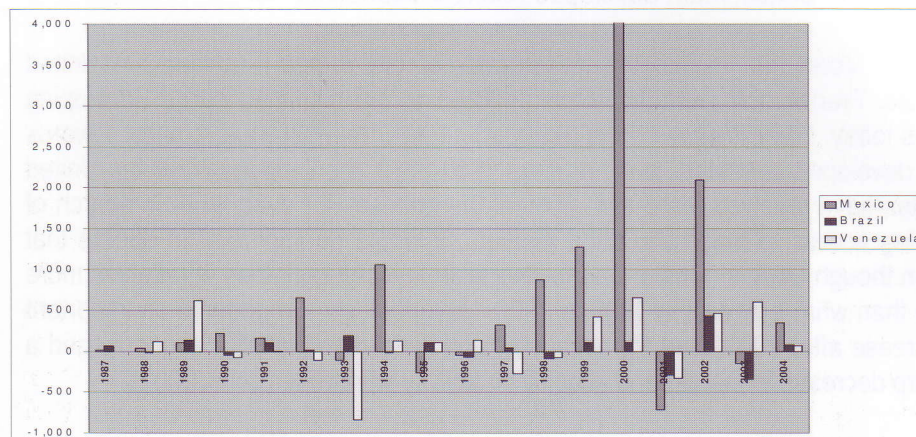


Chart 2. FDI Flows in USA by 3 Latin American Countries. Billions of Dollars (B.E.A, 2005).

In the same way, Mexico also represents an important role in the American exports. During the past two decades, Mexico has moved its policy status from one of the most protectionists to one of the most liberalized. So, the liberalization plan undertaken by Salinas government, combined with measures to ease the debt crisis, the US-Mexican goods trade has doubled between 1985 and 1990 (Brown, Deardorff & Stern 1992). Then, the positive conclusion of the NAFTA had permitted the commercial flows increased enormously from 85 trillions of dollars in 1993 to 241 trillions in the 2000 and in 2002, and as it is observed in chart 3, Mexico is the second most important commercial partner of the United States.

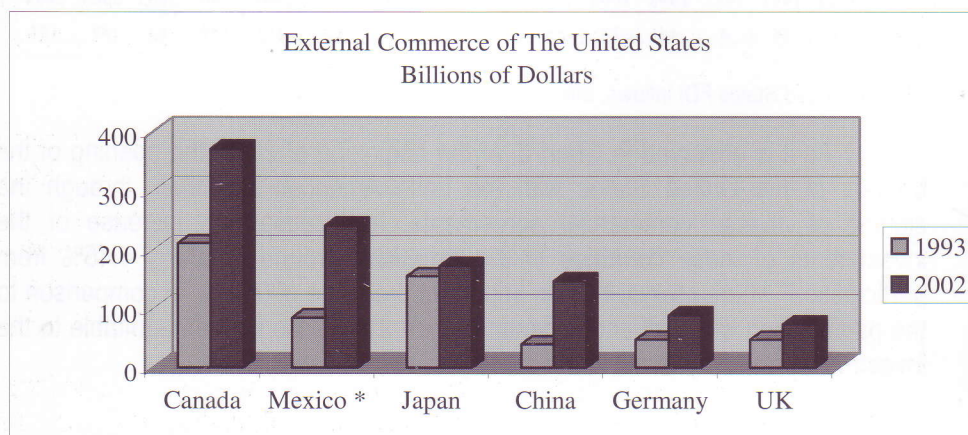


Chart 3. External Commerce Flows of The United States by Geographic area (B.E.A., 2005).

Mexico, main receiving country of FDI in Latin America

Mexico is considered as a country that receives an important amount of FDI; it is an attractive country for the investment, mainly since the 80's, when the Mexican legislation on the FDI was modified and stopped being very restrictive; this contributed to attract more foreign investment. In addition, other events influenced in the evolution of the FDI in Mexico: from 1979 to 1982, the FDI increased considerably, because of the explosion of the petroleum, that affirmed the role of Mexico as an exporting country of power saying, nevertheless, in 1983 the FDI diminishes by the crisis of the Mexican debt of 1982, and finally in the 90's, the liberalization of the Mexican economy allowed the opening of the country to the foreign direct investment. Although the FDI was restrained from the Mexican crisis of 1994, it was reactivated in 1996, thanks to the economic policies taken by the government to overcome the crisis (Steven, 1998).

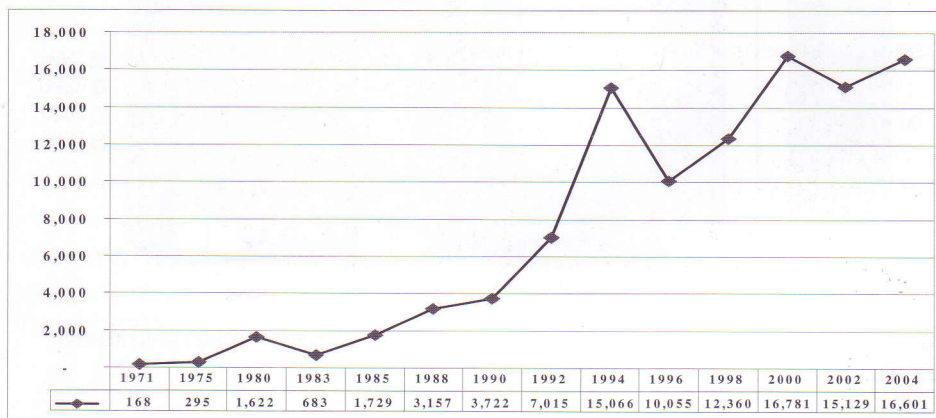


Chart 4. Foreign Direct Investment in México Flows. Millions of Dollars (Informe Estadístico sobre el Comportamiento del IDE en México, 2005).

These events allowed an important increase of the flows of FDI in Mexico (chart 4), being of 3.722 million dollars in 1990 to 12.334 million in 2000. More than 90% of the Foreign Direct Investments in Mexico is of American and European origin. In effect, the United States is the first investor in Mexico with a 65% of participation annual average in the flow of received FDI, which corresponds almost to the two third of the whole, followed by the European and Asian countries.

One of the reasons for the increase of these investments is, due to large extent, to the development of the American and Canadian implantations manufactured in the form of "assembly plants" which has also contributed to the

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fortification of Mexican integration with the North American economy. These implantations use imported components of the United States or Canada to integrate them in Mexico and to re-export them to the North American market. This merchandise movement has caused that more than 77% of our foreign trade is made with the United States, our principal commercial partner (Bair, 2002). It is important to observe that as of 1994, NAFTA takes place, and that the commercial relation with this country has been almost tripled in 2002, from 106 trillions of dollars to 249 trillions (Chart 5).

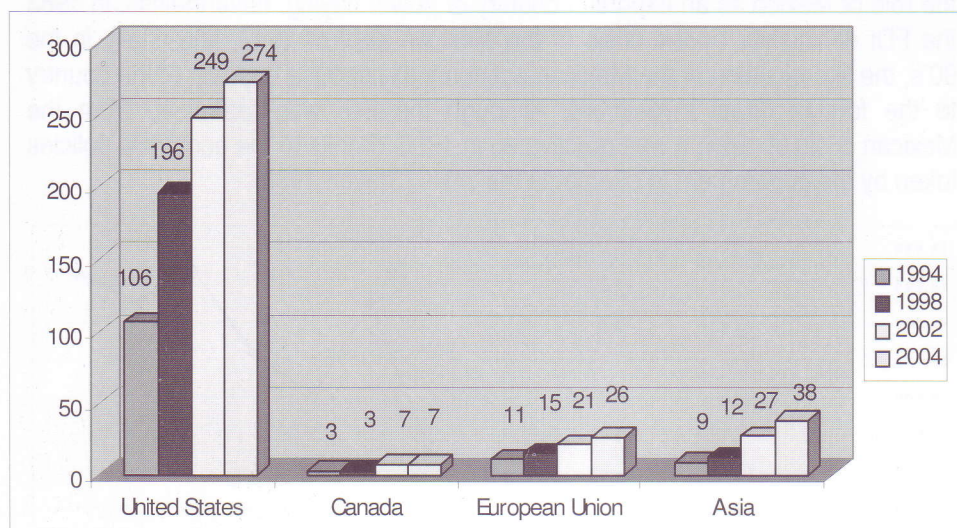


Chart 5. Mexico External Commerce Flows, by geographic area. Billions of Dollars (Información Oportuna del Comercio Exterior de México, 2005).

Foreign Direct Investment of Mexico in the United States

Direct foreign investment and capital market transactions will play a critical role in financing the ever-growing mutual economic interdependence of Mexico and the United States. For this reason, the foreign direct investment that Mexican Enterprises operate in the outside has been growing during last years; their annual flows have increased from 223 thousand dollars in 1990 to 984 thousands in the 2000, as shown in Chart 6. These flows of investment were reduced between 1995 and 1996 by the Mexican crisis: an important lack of investments on the part of the Mexican Enterprises was even generated in crisis. Nevertheless, from 1997 a rise of the FDI with a very important increase takes place. Event through the wild crisis, the Mexican FDI outside is important with an outflow of 969 in 2002.

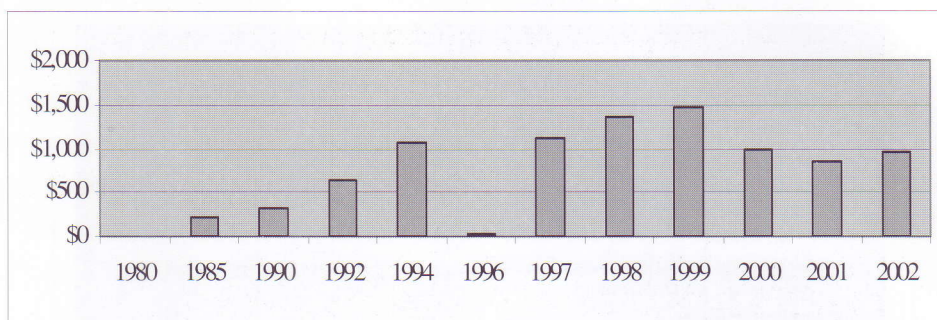


Chart 6. Foreign Direct Investment Flows of Mexico to the outside. Millions of Dollars (World Investment Report, 2003).

As it is to be expected, by the geographic proximity the great majority of the Mexican investments go towards the United States. Of the total stock of FDI emitted by Mexico in the 2002, 77% is reinvested in the United States, of 11,944 million dollars that Mexican Enterprises have invested in the world, 9,246 million are invested in the American market (chart 7).

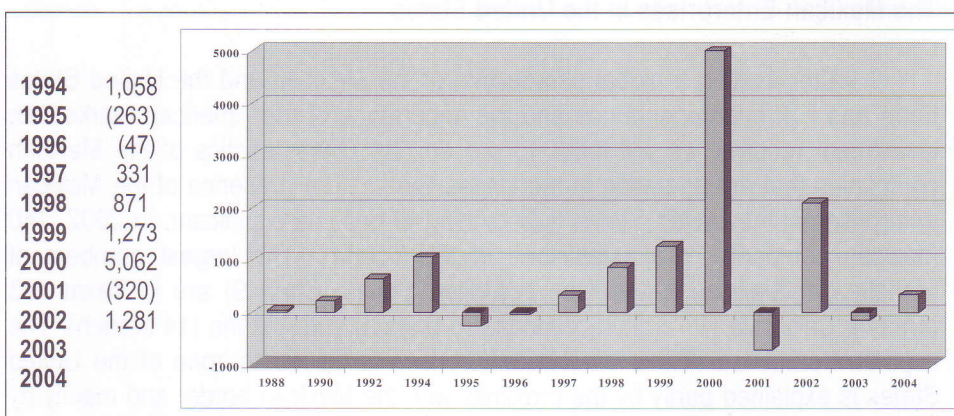


Chart 7. Foreign Direct Investment of Mexico in USA. Thousands of Dollars (B.E.A., 2005).

In 2004, the information provided by the Department of Commerce of the United States (Chart 8), most of the Mexican investments are in the industrial sector with 67% (12% in the food and drink sector and 55% in the other industries like cement, glass, steel), and in the services sector with 33% (emphasizing the financial sector 14% and 19% in commerce and restaurants).

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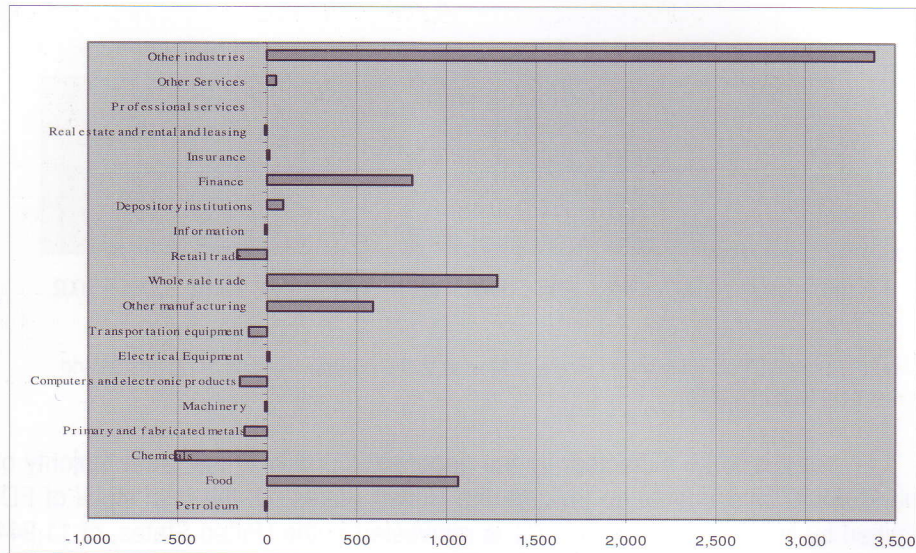


Chart 8. Total FDI of Mexico in USA by Activity Sector in 2001 (B.E.A., 2003).

The Mexican Enterprises in the United States

After making a global perspective of the Mexican and the United States trade and FDI interdependence and the importance of the American market like investment receiver we will focus to present the characteristics of the Mexican companies that are operating in the United States. The presence of the Mexican enterprises in the United States is beginning to become significant. In 2002, 140 Mexican companies are established in this country. The largest numbers of branches of Mexican Enterprises in United States (Chart 9) are in Texas (93 branch), California (41 branch), Florida (15 branch) and Arizona (14 branch). The important presence of the Mexican enterprises in the south zone of the United States is explained partly by the proximity with the Mexican border and mainly by the important presence of Latin American consumers, mainly Mexican.

Chart 9. Mexican Enterprises in The United States, 2001 (B.E.A., 2003).

	Fixed actives balance (millions of dollars)	Number of employees thousands	Number of ME Branch
Total	19,507	57.2	140
Arizona	(ND)	3.7	15
California	605	9.8	41

	Fixed actives balance (millions of dollars)	Number of employees thousands	Number of ME Branch
Florida	153	2.3	15
Georgia	54	1.1	14
Illinois	41	0.8	11
New Mexico	87	0.6	11
New York	71	1.2	14
Tennessee	34	1.3	11
Texas	3,698	21.0	93
Washington	45	0.9	10

In general with the decision to locate the investment outside, the Mexican enterprises look for the proximity with the consumer, most of the locations are explained by the interest to locate those investments in certain cultural communities and, possibly, taking advantage of the so called "ethnic" markets that demand products of certain cultures of consumption. Reason by which, as it is observed in Chart 9, the greater proportion of the Mexican FDI is oriented to the south of the United States. They are taking advantage of the proximity with the huge Mexican and Latin-American community that inhabits in Texas, California, Arizona and New Mexico. For the same reason, it is important to mention that there is a presence of Mexican companies in Latin-American countries as well as South America, and in Europe, mainly in Spain to participate in the numerous demands that these generate.

Cultural differences in the Management Style between Mexico and United States

Two general literature topics, management style and national culture effects on management style, are pertinent to this research. Several researchers are working in cultural differences between Mexico and the United States in how they are doing business in each country. Some of them are using the same base theory and portion of the questionnaire to compare the differences in management styles. Kras E. (1989), Agor (1988), Morris and Pavett (1992), Teegen, & Doh, (2002). Although, such differences may become less important over time, many have found that cultural differences make working together difficult. All these

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studies of the differences in management style have been carried out to administer the American businesses established in Mexico; however, when revising the American literature, there aren't any studies about the impact of the Mexican culture in the management style of the Mexican subsidiaries that are established in the American market. For this reason, we are going to present some of these differences.

Managerial attitudes, values and organizational designs

Power Distance

Teegen, & Doh (2002) conducted a study with 55 Mexican enterprises using the four dimensions of the Hofstede (1980) national culture's differences: "power-distance, uncertainty-avoidance, individualism and masculinity". In relation to this study, they prove that compared with the United States, Mexico demonstrates much higher scores of power-distance because they accept the unequal distribution of power in society, and high score of uncertainty-avoidance, because the people tolerate uncertainty and ambiguity in situations. It is obvious that Mexican business people tolerate constant turmoil in their economic and political environment.

In another studies about the management practices across national borders, Marchese (2001) states that two management practices, empowerment and continuous improvement, may be particularly sensitive to practice-culture fit. Empowerment is a process by which employees are given significant amounts of autonomy regarding their work. Analyzing the employees in a U.S.-based management company located in Mexico, and one in the United States, he found that the U.S. employees scored lower in power-distance-culture, due to their cultural belief that power should be shared or at least attainable. In contrast, the Mexican employees showed a higher power-distance-culture, because in the Mexican culture, some of the inequalities in authority were common and well accepted.

Personal Goals (Framework)

The U.S. culture is highly individualistic, their personal goals are typically placed ahead of the group, and they tend to focus more narrowly on financial return to their enterprise. Mexico, however, is considered to have a collectivist culture, the group goal having more priority than individual goals (Marchese, 2001). This part of collectivism is reflected in the importance of "trust" in Mexico. The perspective of "we're in this together", places a greater value on trust.

(Teegen & Doh, 2002). The Mexican feels that it is a necessity to know and trust his business partners and they place less importance to a formal business contract than his U.S. counterpart. Developing a personal network of clients and suppliers is considered essential for business success (Martinez & Dorfman, 1998).

Relationships

As a number of researchers have argued, Mexico is a business setting wherein the maintenance of relationships is highly regarded. For example, in a study made by Delapalma (1994), according to one U.S. manager in Mexico, the terms of contract "are kind of ideal things that you strive to achieve" through a consensual negotiation, while in the United States they are law". This distinction can be explained by cultural differences. Mexico would inherently recognize the importance of managing ongoing relations, despite the stipulation of a legal contract. This predominance of relationship may insulate individuals and enterprises dealing in uncertain and dynamic changing environments like Mexico. De Forest (1994), affirms that, comparing to the U.S., in Mexico there is low tolerance for adversarial relations or frictions at work. When selecting among job applicants, Mexican employers typically look for a work history that demonstrates ability to work harmoniously with others and cooperatively with authority. Mexican employers tend to seek workers who are agreeable, respectful and obedient rather than innovative and independent.

Organization

There is a more elastic concept of time and a more tolerant attitude towards meeting absolute deadlines in Mexico (Martinez & Dorfman, 1998). The Mexican attitude about "mañana" causes movement at a slower pace. These aspects produce in the Mexican managerial culture a different approach to work, reflecting in everything from scheduling to decision-making. As Teegen & Doh (2002) noted, scheduling a meeting in Mexico became a ballet of clashing customs. The Americans were used to eating lunch at their desks, but in Mexico City, bankers went out, often for hours, for leisurely meals, a reason why Mexicans started at 9 in the morning and often lasted until 9 at night (Delapalma, 1994).

Management Styles in Two Cultures, by Eva Kras

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An important study about management styles in two cultures, conducted by Kras (1989) of the management-related practices and values in Mexico, show an objective look of the Mexican culture. In her observational and interview-based research, Kras describes the cultural management style of the U.S. and Mexican enterprises. Even if it is not a theoretical model, she proves and describes some of the most important cultural differences in some features of management like: Planning, Organization, Staffing, Direction, Control, Training and Development, Competition, Loyalty, Leisure, and Time.

Authority

According to Kras (1998), in the Mexican culture, family life is more important than it is in the U.S., where work often takes priority over the family. In Mexico, there exists a fatherly relation of authority that reflects in the relation chief-employee. The father is the undisputed authority figure, he takes the moral decisions and sets disciplinary standards. This attitude of authority has an influence when the maturing child enters the work place, he expects supervisors to make decisions, take responsibility, and assume all accountability (Morris & Pavett, 1992).

The paradigm of ideal working conditions in Mexico is the family model: everyone working together, doing their share, according to their designated roles. In fact, in the majority of instances and above all in the small and medium businesses in Mexico, the authority himself is concentrated in the upper levels of the organization; there is no tradition of delegation of authority. About this same idea, much has been written in the literature about the impact of "machismo" in the Hispanic-American culture". Implicit in this cultural conditioning and upbringing is a thinking style more appropriate for times past than for the more sophisticated management era moves upon us (Agor, 1988). On the other hand, a value of loyalty in the business exists that permits a mutual understanding on the part of the employees and executives Mexicans.

In contrast, in the United States, the fatherly authority is not so significant; the authority is often shared with the mother. The American family culture contributes to the values and behaviors of self-sufficiency, independency and individualism. Reason why, there is a less authoritative work environments. The employees do not maintain the same level of supervision or authority, they are more independent in their work, are self-sufficient, each person makes pertinent decision without having to report to an authority figure and assumes its responsibilities as soon as that decision is made. Nevertheless, it has been shown that the value of loyalty is not so important in labor relations in the United States.

Friendly Atmosphere

Another aspect is that, the majority of Mexicans consider work necessary to live; they need to earn enough money to satisfy their own needs and those of one's family. With this money they try to enjoy the pleasure of friendliness with family and friends. They hold the attitude that life requires a balance between work and pleasure, and they try to incorporate a certain amount of pure pleasure into their workday, by creating a mellow atmosphere in the workplace. The hiring of relatives and friends is another pattern of Mexican social behavior. Trustworthiness, loyalty and reliability are important to employers. The Mexican workers avoid conflict and confrontation in their work, as they are not strongly competitive in the sense of wanting to surpass the performance of their colleagues.

Time

Traditionally, time is an imprecise concept in Mexico, "mañana", does not mean today, but not necessarily tomorrow. Time commitments are considered desirable objectives, but not binding promises. Although, this attitude is beginning to change among modern Mexican professionals, they still have some influences in the management style of the Mexican enterprises. In contrast, in the United States, work is seen as intrinsically worthwhile and enjoyable, and leisure is a reward for work completed. Americans prefer not to mix business with pleasure; they usually tend rather not hire relatives and friends, because it is important to separate the work life of its employees from their personal lives. In the United States there exists a highly competitive work environment, so the U.S. executives thrive on the stimulus of competition. For the Americans, Time is "money", they are under constant pressure to meet time commitments. Everyday work life is often referred to as a treadmill.

Conclusions

This study aims to prove that there are a very important trade and FDI relation between Mexico and the United States. Both nations have a great economic relationship. Most of the Mexican trade transaction is made with the United States, one of the reasons, is the arrival of large maquiladoras, which has been critical in expanding the Mexican trade to the United States. More than 700 American enterprises are located in Mexico, and 140 big Mexican enterprises are located in the American market. Even if, we saw a lower number of Mexican enterprises located in the American market, their presence means rapid growth. But, the most important discussion is focused on the cultural management differences between Mexican and American enterprises. As we have seen, there

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are some important differences in each culture that affect in an important way the management style of each country. So, a successful business for the Mexican enterprises located in the United States will be well adapted to the American management style. Future research should focus on analyzing if the Mexican enterprises that are located in the United States are actually adopting the American managerial cultural style.

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